Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For proprietary fund accounting and reporting, the state applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. The more significant of the state's accounting policies follow.

A. Reporting Entity

In evaluating how to define the state of Washington, for financial reporting purposes, management has considered: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Based on this criteria, the following are included in the financial statements of the primary government:

STATE AGENCIES - Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, and councils (agencies) and all funds and account groups of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor.

Additionally, a small number of board positions are established by statute or independently elected. The state Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets reside with the state.

COLLEGES AND UNIVERSITIES - The governing boards of the five state universities, the state college, and the 33 state community and technical colleges are appointed by the Governor. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, which include the state's General Fund as well as certain capital projects funds. The state Treasurer issues general obligation debt for major campus construction projects. However, the colleges are authorized to issue revenue bonds for construction of facilities for certain revenue generating activities such as housing, dining, and parking. These revenue bonds are payable solely from and secured by fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB, not discretely reported according to the fund structure of the American Institute of Certified Public Accountants college and university reporting model.

RETIREMENT SYSTEMS - The state of Washington, through the Department of Retirement Systems, administers seven retirement systems for public

employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges Retirement Fund. The director of the Department of Retirement Systems is appointed by the Governor.

There are two additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrator for the Courts under the direction of the Board for Judicial Administration.

The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems together with the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All nine of the aforementioned retirement systems are included in the primary government's financial statements.

COMPONENT UNITS - Discrete component units are entities which are legally separate from the state but which are financially accountable to the state. The following are discretely presented in the financial statements of the state in the component units column:

The WASHINGTON STATE HOUSING FINANCE COMMISSION, the WASHINGTON **HIGHER FACILITIES** EDUCATION AUTHORITY. WASHINGTON HEALTH **CARE FACILITIES** AUTHORITY, and the WASHINGTON ECONOMIC DEVELOPMENT FINANCE AUTHORITY (financing authorities) were created by the Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities are reported as discrete component units of the state government solely for accounting purposes. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority 410 - 11th Avenue SE, Suite 201 PO Box 40935 Olympia, WA 98504-0935

Washington State Housing Finance Commission Washington Higher Education Facilities Authority Washington Economic Development Finance Authority 1000 - 2nd Avenue, Suite 2700 Seattle, WA 98104-1046

The WASHINGTON STATE PUBLIC STADIUM AUTHORITY (PSA) was created by the Legislature to acquire, construct, own, and operate a stadium, exhibition center, and parking garage. The state has budget approval authority over a majority of PSA's funding sources. Further, conditioned upon certain events occurring, the state is authorized to issue and has issued general obligation bonds to participate in the funding of project construction costs. Under statute, the state's share of the total project cost is capped at \$300 million. Project costs in excess of \$300 million are the responsibility of the project's private partner, First & Goal, Inc. The bonds will be repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility. Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority 401 Second Avenue South, Suite 520 Seattle, WA 98104-0280

B. Basis of Presentation - Fund Accounting

The state uses 476 accounts which have been administratively combined into 55 funds and two account groups. The state uses these funds and account groups to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category,

in turn, is divided into separate "fund types." State transactions are recorded in the fund types and account groups described below:

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term obligations (debt service funds). The General Fund is used to account for activities of the general government not accounted for in some other fund.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the governmental unit (internal service funds).

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the governmental unit. When these assets are held under the terms of a formal trust agreement, either an expendable trust fund, a nonexpendable trust fund, or a pension/investment trust fund is used. The terms "expendable" and "nonexpendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Groups

The General Fixed Assets Account Group accounts for all fixed assets of the state other than those accounted for in proprietary and similar trust funds. The General Long-Term Obligations Account Group accounts for the unmatured principal of the state's general obligation bonds and other long-term obligations of governmental and expendable trust funds.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds

present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary, nonexpendable trust, and pension/investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in equity (i.e., total net assets). Equity in proprietary funds is segregated into contributed capital and retained earnings components. Equity for nonexpendable trust and pension/investment trust funds is shown as reserved for nonexpendable trust corpus and reserved for pension benefits/local governments, respectively.

The modified accrual basis of accounting is used by all governmental, expendable trust, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, unemployment compensation contributions, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collected within 60 days. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure driven grant agreements are recognized when the qualifying expenditures are made. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half year collections are due by April 30, and the second half year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half year collections are recognized as revenue, if collected within 60 days of the fiscal year end. The second half year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are recognized when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term obligations which is recognized when

due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

All proprietary, nonexpendable trust, and pension/investment trust funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The state reports deferred revenues on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to the incurrence of qualifying expenditures.

D. General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of The accompanying detail in certain instances. "Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual -All Governmental Fund Types" ("Governmental Budgetary Statement") is not presented at the legal level of budgetary control. This is due to the large number of appropriated fund/accounts and appropriations within agencies that would make such a presentation in the accompanying financial statements extremely

cumbersome. Section 2400.112 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 1999-2001 Biennium to illustrate legal budgetary Appropriated budget versus actual compliance. expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at the fund/account, agency, and appropriation level are presented in Report MFS1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43123, Olympia, Washington 98504-3123.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised only at the beginning of the second year of the biennium and must be initiated by the Governor. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary statements displayed in the accompanying financial statements are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying "Governmental Budgetary Statement" is different in certain respects from the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types" ("Governmental Operating Statement"). accompanying "Governmental Budgetary Statement," budget and actual expenditures are reported only for appropriated fund/accounts and activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the accompanying "Governmental Operating Statement," all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain activities are excluded from the "Governmental Budgetary Statement" because they are These activities include: funds not appropriated. designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments. Further, certain operating transfers are appropriated These transfers are reported as expenditures. expenditures "Governmental Budgetary in the Statement" and as operating transfers in the "Governmental Operating Statement." The main factors contributing to the difference in the amount "Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses" are: note and loan activity as explained in Note 2, "Budgetary Accounting, Reporting, Compliance," and nonappropriated governmental fund activities.

E. Cash and Pooled Investments

Investments of surplus or pooled cash balances are reported on the accompanying Combined Balance Sheet and Combined Statement of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For

reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Combined Statement of Cash Flows, the state considers cash and short term, highly liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates to be cash equivalents.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost. The Office of the State Treasurer prepares a stand-alone financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TDD (360) 902-8963.

All other noncurrent investments are reported at fair value. Fair values are determined using closing market prices at year-end for marketable securities and other reasonable methods for investments where market values are not readily available.

F. Receivables

Receivables in the state's governmental and fiduciary funds consist primarily of tax and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met.

G. Inventories

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes if the annual balance on hand within an agency is estimated to exceed \$25,000 in value. Consumable inventories are generally valued using the first-in, first-out method. All merchandise inventories are valued and considered reportable for financial statement Merchandise inventories are generally valued using the first-in, first-out method. Donated consumable inventories are recorded at fair market value. Food stamps on hand are recorded at face value.

Governmental and expendable trust fund inventories are valued at cost and are recorded using the consumption method. Inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for \$33 thousand in food stamps and \$5.6 million in federally donated consumable inventories, both of which are offset

by deferred revenues because they do not constitute a fund resource until issued or consumed.

Proprietary fund inventories are valued at the lower of cost or market and are expensed when used or sold.

H. Fixed Assets

Except as noted below, all fixed assets with a unit cost of \$5,000 or greater are capitalized and reported in the accompanying financial statements. Fixed assets acquired by capital leases with a net present value or fair market value, whichever is less, of \$10,000 or more are capitalized and also included in these financial statements.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Fixed asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Donated fixed assets are valued at their estimated fair value, plus all appropriate ancillary costs, on the date of donation. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are increased by the construction. In proprietary and similar trust funds, interest costs (if material) incurred during the period of construction are capitalized.

Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings (including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets) that are immovable and are of value only to the state are not capitalized. Streets, sidewalks, lighting systems, and similar assets located on college and university campuses, which predominately benefit college and university activities, are capitalized.

Fixed assets in governmental and expendable trust funds are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and related assets (including construction projects not completed at the end of the accounting period) with the following characteristics are reported in the General Fixed Assets Account Group:

- Acquired for the production of general government services, not for the production of services that are sold
- Have a life expectancy of more than one year.
- Have a unit cost of \$5,000 or greater.

Depreciation expense of general fixed assets is not recorded in the activity statements of governmental and expendable trust funds. Accumulated depreciation is recorded in the General Fixed Assets Account Group and is included in the financial statements as a "Memo Only" entry. Depreciation is calculated using the straight-line method with estimated useful lives of 50 years for buildings, and three to 50 years for furnishings and equipment, other improvements, and miscellaneous fixed assets. General fixed assets are removed from the General Fixed Assets Account Group at the time of disposal.

Fixed assets used in proprietary and similar trust funds are accounted for in the fund in which they are utilized. Depreciation is computed using the straight-line method. Buildings are depreciated using estimated useful lives extending to 50 years. Furnishings and equipment, other improvements, and miscellaneous fixed assets are depreciated using estimated useful lives of three to 50 years. The cost and related accumulated depreciation of fixed assets retired from service or disposed of, are removed from the accounting records.

I. Compensated Absences

Annual Leave

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date. It is the state's policy to liquidate unpaid annual leave at June 30 from future resources rather than currently expendable available financial resources. Accordingly, governmental and expendable trust funds recognize annual leave when it is paid. A long-term liability of \$232.6 million for the accumulated annual leave and related payroll taxes and benefits in governmental and expendable trust funds has been recorded in the General Long-Term Obligations Account Group as of June 30, 2001. Proprietary and similar trust funds recognize the expense and accrued liability when the annual leave is earned. An accrued liability for accumulated annual leave, including related payroll taxes and benefits, has been recorded in enterprise funds for \$25.5 million and \$16.3 million in internal service funds as of June 30, 2001.

Sick Leave

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. It is the state's policy to liquidate unpaid sick leave at June 30 from future resources rather than currently expendable available expendable financial resources. Accordingly, governmental and expendable trust funds recognize sick leave when it is paid. The state has recorded an estimated sick leave buyout liability, including related payroll taxes, for governmental and expendable trust funds of \$111.5 million at June 30, 2001 in the General Long-Term Obligations Account Group. Proprietary and similar trust funds recognize the expense and accrue a liability for estimated sick leave buyout as sick leave is earned. As of June 30, 2001, a liability for estimated sick leave buyout, including related payroll taxes, has been accrued in enterprise funds for \$8.1 million and in internal service funds for \$6.2 million.

J. Long-Term Obligations

Long-term obligations expected to be financed from resources to be received in the future by governmental and expendable trust funds are reported in the General Long-Term Obligations Account Group, not in the individual funds. Long-term obligations to be financed from proprietary and similar trust funds are recorded in the applicable funds rather than in the General Long-Term Obligations Account Group.

K. Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. In governmental and fiduciary funds, fund equity is called "Fund Balance." Reserved fund balance represents that portion of fund balance that is: (1) not available for appropriation or expenditure, and/or (2) legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

For proprietary funds, equity attributable to accumulated earnings is referred to as "Retained Earnings." Equity provided by contributions from other funds and capital grants is classified as "Contributed Capital."

L. Insurance Activities

Workers' Compensation

The state of Washington's workers' compensation program is established by Title 51 RCW. The statute requires all employers to insure payment of benefits for job related injuries and diseases through the Workers' Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Workers' Compensation Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to four years following the plan year based on individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers' Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are

charged or credited to expense in the periods in which they are made.

Risk Management

Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third The majority of state funds and agencies participate in the risk management liability program in proportion to the anticipated exposure to liability losses.

State Employees' Insurance

The state's health care benefits program is accounted for in the State Employees' Insurance Fund, an internal service fund, and is funded through contributions from employees and a per capita amount determined annually by the Legislature and allocated to state agencies. The allocation represents a composite rate that funds all programs except for the portion contributed by employees. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. The program also covers employees on extensions of coverage and retirees who self-pay their insurance premiums.

The state self-insures or internally manages the risk of loss for the Uniform Medical Plan. Thirty-two percent of eligible subscribers were enrolled in this health care plan in Fiscal Year 2001. Claims are paid from premiums collected, and claims adjudication is administrator. contracted through a third-party Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

M. Interfund Activities

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Totals (Memorandum Only) Columns

Totals columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis.

The data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Furthermore, this data is not comparable to a consolidation as interfund eliminations have not been made in the aggregation of this data.

O. Future Changes in Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, Statement No. 37 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34, and Statement No. 38 Certain Financial Statement Note Disclosures. These new accounting and reporting standards will impact the state's revenue and expenditure recognition and assets, liabilities, and fund equity reporting. The new standards will also require reformatting of the financial statements and the restating of beginning balances. These new GASB standards will be implemented in Fiscal Year 2002.

Note 2 - Budgetary Accounting, Reporting, and Compliance

A. Biennial Budget

Budgeted amounts reported on the accompanying "Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual -

All Governmental Fund Types" ("Governmental Budgetary Statement") include approved appropriations for the 1999-2001 Biennium.

The following schedule details the approved budget by fund type (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memo Only)
Legislative Appropriations:					
Original	\$ 30,107,841	\$ 6,348,746	\$ 383,622	\$ 1,697,675	\$ 38,537,884
Supplemental	1,047,759	(296,505)	(17,673)	41,116	774,697
Total Legislative Appropriations	\$ 31,155,600	\$ 6,052,241	\$ 365,949	\$ 1,738,791	\$ 39,312,581

B. Reconciliation of Governmental Budgetary Statement to Governmental Operating Statement

The following is a reconciliation for Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses for all governmental fund types between the "Governmental Budgetary Statement" and the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types" ("Governmental Operating Statement").

Certain transactions appear on the "Governmental Operating Statement" and not on the "Governmental Budgetary Statement," or conversely, appear on the "Governmental Budgetary Statement" and not on the "Governmental Operating Statement." Also, certain transactions appear differently on the "Governmental Operating Statement" and the "Governmental Budgetary Statement." These transactions are reconciled as detailed below:

BASIS ADJUSTMENTS - Loan disbursements/receipts are budgeted items and appear on the "Governmental Budgetary Statement." However, they do not appear on the "Governmental Operating Statement" because they represent increases/decreases of loan receivables and

appropriately appear on the Combined Balance Sheet. Certain operating transfers are budgeted as expenditures to allow the exercise of budgetary control. These operating transfers are reflected as expenditures on the "Governmental Budgetary Statement" in accordance with approved appropriations, but they are reflected as operating transfers on the "Governmental Operating Statement."

ENTITY ADJUSTMENTS - Certain funds designated as nonappropriated by the Legislature, resources collected and distributed to other governments, federal surplus food commodities, food stamp benefits, and notes and capital lease proceeds/acquisitions are not appropriated and do not appear on the "Governmental Budgetary Statement." Portions of the difference in the Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses between the accompanying "Governmental Budgetary Statement" and the "Governmental Operating Statement" can be caused by the funds designated as nonappropriated by the Legislature, and by expending note proceeds received in prior fiscal periods. The other entity adjustments do not cause differences in those statements because offsetting revenues and expenditures are excluded from the "Governmental Budgetary Statement" in each case.

The following schedule details the reconciling items between the "Governmental Budgetary Statement" and the "Governmental Operating Statement" by governmental fund type (expressed in thousands):

		Special	Debt	Capital	Totals
	General	Revenue	Service	Projects	(Memo Only)
Excess of Revenues and Other Financing Sources					
Over (Under) Expenditures and Other Financing Uses					
(Budgetary Basis) for the Biennium Ended June 30, 2001	\$ 39,913	\$ 132,119	\$ 305	\$ 93,427	\$ 265,764
Less: For the Fiscal Year ended June 30, 2000	231,323	(126,852)	119,487	43,589	267,547
For the Fiscal Year Ended June 30, 2001	(191,410)	258,971	(119,182)	49,838	(1,783)
Basis Adjustments:					
Loan disbursements	115,831	411	-	22	116,264
Loan receipts	(46,585)	(580)	-	(42)	(47,207)
Current expenditures	582,960	78,748	(567,443)	14,000	108,265
Operating transfers (net)	(582,960)	(78,748)	567,443	(14,000)	(108,265)
Entity Adjustments:					
Revenues of nonappropriated funds	227,461	1,877,290	(8,559)	61,336	2,157,528
Expenditures of nonappropriated funds	(189,261)	(1,878,434)	-	(44,906)	(2,112,601)
Revenues collected for other governments	94,554	264,016	-	-	358,570
Revenues distributed to other governments	(94,554)	(264,016)	-	-	(358,570)
Revenues attributable to federal surplus					
food commodities and food stamps	283,083	-	-	-	283,083
Noncash commodities and food stamps issued	(283,083)	-	-	-	(283,083)
Capital leases proceeds	-	10,364	-	-	10,364
Note proceeds	5,679	17,642	-		23,321
Noncash capital acquisitions	(5,679)	(22,867)	-	165	(28,381)
Excess of Povonuos and Other Financing Sources					
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses					
(GAAP Basis) for the Fiscal Year Ended June 30, 2001	\$ (83,964)	\$ 262,797	\$ (127,741)	\$ 66,413	\$ 117,505

C. Budget Overexpenditures

Appropriations are legal limitations on agency expenditures subject to available fund balances. The biennial appropriation bill authorizes bond debt service expenditures and retirement contributions in an amount

sufficient to meet financing needs. There are no overexpenditures of appropriations at the legal level of control for the 1999-2001 Biennium.

Note 3 - Accounting and Reporting Changes

Fund equity at July 1, 2000, has been restated as follows (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	Totals (Memo Only)
Fund equity at June 30, 2000, as previously reported	\$ 2,936,692	\$ 1,619,804	\$ 210,676	\$ 157,034	\$ (3,333,467)	\$ 170,390	\$ 56,909,486	\$ 58,670,615
Accounting policy Prior period adjustment	-	27,242	-	-	20,436	-	276,753 106,063	303,995 126,499
Fund equity as restated, July 1, 2000	\$ 2,936,692	\$ 1,647,046	\$ 210,676	\$ 157,034	\$ (3,313,031)	\$ 170,390	\$ 57,292,302	\$ 59,101,109

Changes Affecting Equity

Accounting policy – Effective for Fiscal Year 2001 reporting, the state implemented Statement No. 33 of the Governmental Accounting Standard Board (GASB), Recipient Reporting for Certain Shared Nonexchange Revenues, and GASB Statement No. 36, an amendment of GASB Statement No. 33. These statements address the timing of recognition of nonexchange transactions. In accordance with these statements, the state is recognizing revenue for unemployment compensation contributions

in an Expendable Trust fund, and motor fuel taxes in a Special Revenue fund.

Prior period adjustment - The Higher Education Coordinating Board reported an adjustment to record the appropriate value of installment contract receivables related to the Guaranteed Education Tuition Program in an Enterprise fund. The Department of Retirement Systems reported an adjustment to the beginning fair value of investments in the Deferred Compensation Program which is an Expendable Trust fund.

Note 4 - Deposits and Investments

As of June 30, 2001, the carrying amount of Washington's cash and investments was \$72 billion. Total cash and investments at fiscal year-end amounted to \$72.4 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to

\$8.8 million, deposits with financial institutions amounted to \$674.4 million, and deposits in the federal Unemployment Trust Fund amounted to \$1.9 billion. The remaining \$69.8 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 2001, are as follows (expressed in thousands):

Type of Deposit	Carrying	Bank	Insured/	Uninsured/	
	Amount	Balance	Collateralized	Uncollateralized	
Demand deposits Certificates of deposit Cash with fiscal and escrow agents	\$ 76,409	\$ 175,549	\$ 166,525	\$ 9,024	
	421,015	421,015	417,836	3,179	
	77,846	77,844	54,202	23,642	
Total Deposits	\$ 575,270	\$ 674,408	\$ 638,563	\$ 35,845	

DEPOSITS - At fiscal year end, 94.7 percent of the state's deposits with financial institutions were either insured or collateralized, the remaining 5.3 percent were uninsured/uncollateralized. The state's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

INVESTMENTS - The State Investment Board and the Office of the State Treasurer manage approximately 92 percent of the state's investing activity. Management responsibilities and investment instruments as authorized by statute follow.

STATE INVESTMENT BOARD (SIB) - Statute designates SIB as having investment management responsibility for pension funds, the Workers' Compensation Fund, permanent funds (established at statehood), and other specific funds. Pursuant to statute

(Chapter 43.33A RCW) and SIB policy, SIB is authorized and invests in the following: Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; nondollar bonds; investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment and limited liability corporations, partnerships, companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been

estimated based on independent appraisals. Venture capital and leveraged buy-out investments are determined by independent investment advisors based on analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent or more of each plan's net assets.

The SIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options, to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. SIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the SIB authority to invest in derivatives, international active equity managers may make limited investment in financial futures, forward contracts, or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2001. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of the use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2001, the only derivative securities held directly by SIB were collateralized mortgage obligations of \$3.4 billion.

State law and Board policy permit the SIB to participate in securities lending transactions. The Board has entered into agreements with State Street Bank and Trust to act as agents for the SIB in securities lending transactions. As State Street Bank and Trust is the custodian bank for the SIB, it is a counterparty to securities lending transactions. Therefore, all cash collateral reinvested by State Street Bank and Trust is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the SIB's agents with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, where securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not

denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2001 approximated \$2.6 and \$2.5 billion, respectively.

During Fiscal Year 2001, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 39 days.

Cash collateral was invested by the SIB's agents in securities issued or guaranteed by the U.S. government, the SIB's short-term investment pool (average weighted maturity of 212 days), or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Noncash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were loaned with the agreement that they would be returned in the future for exchange of the collateral. State Street Bank and Trust indemnified the SIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Bank and Trust Company's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2001, there were no significant violations of legal or contractual provisions or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the SIB incurred no losses during Fiscal Year 2001 resulting from a default by either the borrowers or the securities lending agents.

The SIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2001, the state had the following unfunded investment commitments (expressed in thousands):

Private equity partnerships \$ 4,614,146 Real estate 428,734

OFFICE OF THE STATE TREASURER (OST) - The OST operates the state's Cash Management Account for investing cash in excess of daily requirements. Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities

underlying repurchase and reverse repurchase agreements are limited to those stated above.

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with a lending agent to lend securities, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST. securities held as collateral and the securities underlying the cash collateral are held by the OST's custodian. At June 30, 2001, all OST securities on loan were collateralized by cash and other securities and are classified in the schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2001, the average life of both the loans and the investment of cash received as collateral was two days.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2001, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. Furthermore, the contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the OST's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of fair value, plus accrued interest. Collateralized Mortgage Obligations (CMO) used as collateral for repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase

them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. At fiscal year end, the 30 percent limitation of the policy applies to a combination of securities lending and reverse repurchase agreements. During the fiscal year, the maturities of reverse repurchase agreements were matched to anticipated cash flows adequate to liquidate the agreements. On June 30, 2001, there were no obligations under reverse repurchase agreements.

UNIVERSITY OF WASHINGTON - The University's investment policies permit it to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The University's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities. U.S. securities are loaned verses collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. At yearend, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan. Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is ten days. Cash collateral is invested in a short-term investment pool, which had an average weighted maturity of 30 days as of June 30, 2001. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. Non-cash collateral cannot be sold unless the borrower defaults.

INVESTMENT ACTIVITY - The state's investments are categorized below per GASB Statement No. 3 to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the state or its agent in the state's name. Category 2 includes uninsured and unregistered investments which are held by the counterparties' trust

State	o f	Washington	

departments or agents in the state's name. Category 3 includes uninsured and unregistered investments held by

counterparties, or their trust departments or agents, but not in the state's name.

Investments at June 30, 2001, by investment type, are listed below (expressed in thousands):

		ing Amount l		Carrying	Fair
Investment Type	1	2	3	Amount	Value
Corporate bonds	\$ 10,660,729	\$ 461	\$ 75,851	\$ 10,737,041	\$ 10,737,141
Corporate stocks	2,547,666	623	-	2,548,289	2,548,303
U.S. government securities	4,059,206	1,533	5,083	4,065,822	4,065,827
Government securities - foreign	170,125	-	-	170,125	170,125
Collateralized mortgage obligations	3,411,520	-	-	3,411,520	3,411,525
Repurchase agreements	1,472,680	4,560	450,000	1,927,240	1,927,240
Zero coupon bonds	1,289	-	-	1,289	1,289
Asset backed securities	543,763	-	207,053	750,816	750,816
Commercial paper	15,308	-	104,722	120,030	120,030
Discount notes	4,914,508	-	-	4,914,508	4,914,508
Bankers' acceptances	7,365	-	-	7,365	7,365
Municipal bonds	44,238	-	-	44,238	44,252
Variable rate notes	-	-	1,073,068	1,073,068	1,073,068
Negotiable certificates of deposit	-	-	614,576	614,576	614,576
Other	34,622	-	8,359	42,981	42,981
	\$ 27,883,019	\$ 7,177	\$ 2,538,712	30,428,908	30,429,046
Mutual funds				24,347,781	24,347,781
Mortgages				1,136,262	1,136,262
Real estate				3,700,456	3,700,456
Private equity				5,913,976	5,913,976
Guaranteed investment contracts				421,749	421,749
Investments held by broker-dealers under securities lending programs:					
U.S. government securities				2,877,706	2,877,706
Corporate securities				987,517	987,517
Total Investments				\$ 69,814,355	\$ 69,814,493

Note 5 - Receivables and Deferred Revenues

A. Taxes Receivable

Taxes receivable at June 30, 2001, consisted of the following (expressed in thousands):

Taxes Receivable	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	Totals (Memo Only)
Property	\$ 746,284	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 746,284
Sales	1,159,951	12,549	-	-	-	-	-	1,172,500
Business and occupation	383,374	-	-	-	-	-	-	383,374
Excise	-	-	-	-	-	-	-	-
Estate	13,435	-	-	-	-	-	-	13,435
Fuel	-	60,008	-	-	-	-	-	60,008
Other	44,446	27	-	-	4,276	-	-	48,749
Subtotals	2,347,490	72,584	-	-	4,276	-	-	2,424,350
Less: Allowance for								
uncollectible receivables	29,444	49	-	-	-	-	-	29,493
Total Taxes Receivable	\$ 2,318,046	\$ 72,535	\$ -	\$ -	\$ 4,276	\$ -	\$ -	\$ 2,394,857

B. Other Receivables

Other receivables at June 30, 2001, consisted of the following (expressed in thousands):

		Special	Debt	Capital		Internal	Trust &	Totals
Other Receivables	General	Revenue	Service	Projects	Enterprise	Service	Agency	(Memo Only)
Public assistance receivables	\$ 1,207,032	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,601	\$ 1,212,633
Accounts receivable	19,288	97,322	13	6,451	546,865	3,474	14,898	688,311
Interest receivable	5,793	10,283	-	23	118,115	136	270,085	404,435
Loans receivable	9,404	2,016	-	1,182	2	-	332,196	344,800
Long-term contracts	73,153	44,953	-	10,101	-	-	-	128,207
Miscellaneous receivables	5,135	62,394	-	2,867	43,272	209	528,711	642,588
Subtotals	1,319,805	216,968	13	20,624	708,254	3,819	1,151,491	3,420,974
Less: Allowance for								
uncollected receivables	1,033,582	16,357	8	8	89,173	286	75,352	1,214,766
Total Other Receivables	\$ 286,223	\$ 200,611	\$ 5	\$ 20,616	\$ 619,081	\$ 3,533	\$ 1,076,139	\$ 2,206,208

Note: Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

C. Deferred Revenues

Deferred revenues at June 30, 2001, consisted of the following (expressed in thousands):

Deferred Revenues	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	Totals (Memo Only)
Property taxes	\$ 720,884	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 720,884
Other taxes	364,703	-	-	-	592	-	-	365,295
Timber sales	71,347	44,953	-	10,101	-	-	-	126,401
Charges for services	2,521	25,446	-	-	29,609	656	12,007	70,239
Food stamps	33	-	-	-	-	-	-	33
Donable goods	5,551	-	-	-	22	-	-	5,573
Miscellaneous	70,006	128,969	-	68	11,896	31	218,560	429,530
Total Deferred Revenues	\$ 1,235,045	\$ 199,368	\$ -	\$ 10,169	\$ 42,119	\$ 687	\$ 230,567	\$ 1,717,955

Note 6 - Interfund Balances

The following balances at June 30, 2001, represent due from/to balances among all funds and state agencies (expressed in thousands):

Fund Type	Fund	Due From	Totals	Due To	Totals
Governmental Funds:					
General	General Fund		\$ 179,080		\$ 589,024
Special Revenue	Motor Vehicle Fund	\$ 46,181		\$ 58,576	
	Transportation Fund	7,938		7,441	
	State Wildlife Fund	4,052		5,072	
	Common School Construction Fund	21,505		2,000	
	Central Administrative and Regulatory Fund	14,271		12,094	
	Human Services Fund	22,466		9,657	
	Natural Resources Fund	20,952		21,400	
	Higher Education Fund	524,895	662,260	616,379	732,619
Debt Service	General Obligation Bond Fund	1,774		-	
	Transportation Bond Fund	236	2,010	-	-
Capital Projects	State Facilities Fund	37,322		37,495	
	Higher Education Facilities Fund	45,633	82,955	2,697	40,192
Total Governmental F	unds		926,305		1,361,835
Proprietary Funds:					
Enterprise	Liquor Fund	7,937		7,952	
	Workers' Compensation Fund	1,978		7,175	
	Convention and Trade Fund	614		156	
	Lottery Fund	7,550		1,998	
	Institutional Fund	4,027		1,101	
	Student Services Fund	223,351		32,489	
	Other Activities Fund	928	246,385	35,147	86,018
Internal Service	Central Services Fund	20,672		4,447	
	Equipment Revolving Fund	5,632		1,031	
	Data Processing Revolving Fund	15,415		1,576	
	Printing Services Fund	5,413		371	
	State Employees' Insurance Fund	23,521		22,910	
	Risk Management Fund	1,003		6,730	
	Higher Education Revolving Fund	36,623	108,279	15,428	52,493
Total Proprietary Fund	ds	_	354,664	_	138,511
Total Governmental a	and Proprietary Funds		1,280,969		1,500,346

Continued on next page

Fund Type	Fund	Due From	Totals	Due To	Totals
Totals from previous page			1,280,969		1,500,346
Trust and Agency:					
Expendable Trust	Human Services Trust Fund	3,466		1,173	
	Higher Education Trust Fund	45,930		7,111	
	Deferred Compensation Trust Fund	-		8	
	Miscellaneous Trust Fund	14,193	63,589	3,290	11,582
Nonexpendable Trust	Higher Education Endowment Fund	53,763		174,295	
•	Common School Permanent Fund	-	53,763	910	175,205
Pension/Investment Trust	Public Employees' Plan 1 Fund	3,520		643	
	Public Employees' Plan 2 Fund	312		4,516	
	Teachers' Plan 1 Fund	124		275	
	Teachers' Plan 2 & 3 Defined Benefit Fund	8		592	
	School Employees' Plan 2 & 3 Defined Benefit Fund	3,051		3,723	
	L.E.O.F.F Plan 1 Fund	7		106	
	L.E.O.F.F Plan 2 Fund	6		177	
	Washington State Patrol Fund	1		5	
	Judicial Retirement System	2		-	
	Judges Fund	19		-	
	Volunteer Fire Fighters' Fund	5		1	
	Local Government Investment Pool	-	7,055	35	10,073
Agency	Clearing Fund	2,386		133	
	Suspense Fund	11,288		8,741	
	Local Government Distributions Fund	314,936		18	
	Pooled Investments Fund	271,290	599,900	299,178	308,070
Total Trust and Agency Fu	inds		724,307		504,930
Total Due From and To C	Other Funds		\$ 2,005,276		\$ 2,005,276

Note 7 - Fixed Assets

A. General Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group during Fiscal Year 2001 (expressed in thousands):

General Fixed Assets	Balances July 1, 2000	Additions	Deletions	Balances June 30, 2001
Land	\$ 1,022,490	37,435	(117,469)	\$ 942,456
Buildings Accumulated depreciation Net buildings	4,663,335 (1,401,317) 3,262,018	612,413 (136,631)	(90,757) 12,202 ₋	5,184,991 (1,525,746) 3,659,245
Furnishings and equipment Accumulated depreciation Net furnishings and equipment	951,645 (646,709) 304,936	948,998 (351,866)	(164,181) 52,724	1,736,462 (945,851) 790,611
Other improvements and miscellaneous Accumulated depreciation Net other improvements and miscellaneous	1,127,771 (184,065) 943,706	250,118 (75,226)	(33,446) 5,118	1,344,443 (254,173) 1,090,270
Construction in progress	862,656	524,915	(272,289)	1,115,282
Total General Fixed Assets	\$ 6,395,806			\$ 7,597,864

The following summarizes the funding source of the investment in General Fixed Assets as of June 30, 2001, (expressed in thousands):

Source of Funds by Fund Type:	Balances June 30, 2001
General	\$ 1,859,997
Special Revenue	1,786,107
Capital Projects	3,914,301
Expendable Trust	37,459
Total General Fixed Assets	\$ 7,597,864

B. Proprietary Fixed Assets

The following is a summary of proprietary fund type fixed assets at June 30, 2001, (expressed in thousands):

Fixed Assets	Enterprise	Internal Service
Land	\$ 24,054	\$ 1,458
Buildings	937,735	57,809
Accumulated depreciation	(315,624)	(8,779)
Net buildings	622,111	49,030
Furnishings and equipment	260,852	504,258
Accumulated depreciation	(180,517)	(267,046)
Net furnishings and equipment	80,335	237,212
Other improvements and miscellaneous	64,401	24,941
Accumulated depreciation	(15,316)	(10,394)
Net other improvements and miscellaneous	49,085	14,547
Construction in progress	302,487	15,797
Total Fixed Assets	\$ 1,078,072	\$ 318,044

C. Construction in Progress

Other major construction commitments of the state at June 30, 2001, are as follows (expressed in thousands):

Agency/Project Commitments	Construction In Progress June 30, 2001	Remaining Project Commitments
Department of General Administration:		
Various projects	\$ 83,442	\$ 249,786
Liquor Control Board:		
Distribution center	22,255	-
Washington State Patrol:		
Seattle crime laboratory	1,516	12,200
Military Department:		
Emergency operation center and other projects	16,121	23,918
Department of Social and Health Services:		
State hospital and juvenile rehabilitation renovations, and other projects	136,852	34,300
Department of Corrections:		
Correctional centers construction, improvements, and other projects	259,652	526,159
Department of Transportation:		
Maintenance facilities, ferry vessels, and terminals	214,427	103,174
Department of Fish and Wildlife:		
Hatchery renovations, site improvements, and other projects	1,432	108
State Convention and Trade Center:		
Various projects	175,185	-
Higher Education Facilities:		
University of Washington	198,725	346,852
Washington State University	96,798	93,837
Eastern Washington University	7,422	-
Central Washington University	6,157	-
Western Washington University	39,910	28,022
Community and Technical Colleges	150,451	44,086
Other Agency Miscellaneous Projects	23,221	11,032
Total Construction in Progress	\$ 1,433,566	\$ 1,473,474

Note 8 - Lease Commitments

The state leases land, office facilities, office and computer equipment, and other assets. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the

related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. The total operating lease expenditures for Fiscal Years 2000 and 2001 were \$295.6 million and \$317.2 million, respectively.

Future minimum lease commitments for noncancelable operating and capital leases as of June 30, 2001, are as follows (expressed in thousands):

	Capital Leases				
Lease Commitments during Fiscal Years:	Operating Leases	Enterprise Funds	Internal Service Funds	General L.T. Obligations Account Group	Total All Leases
2002	\$ 89,761	\$ 375	\$ 574	\$ 2,440	\$ 93,150
2003	81,100	341	404	2,083	83,928
2004	68,816	333	374	2,061	71,584
2005	57,889	317	338	2,030	60,574
2006	48,332	272	77	1,987	50,668
Thereafter	179,338	1,126	21	9,871	190,356
Total Future Minimum Lease Commitments	\$ 525,236	2,764	1,788	20,472	\$ 550,260
Amounts representing executory and interest costs Present Value of Future Minimum Lease Commi	tments	828 \$ 1,936	165 \$ 1,623	4,422 \$ 16,050	

Note 9 - Claims and Judgments Payable

Claims and judgments payable is materially comprised of the three activities described below: workers' compensation, risk management, and state employees' insurance.

A. Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

	Balances Beginning of	Current Year Claims and Changes	Claim	Balances End of
Workers' Compensation Fund	Fiscal Year	in Estimates	Payments	Fiscal Year
FY 2000	\$ 12,515,445	2,359,394	(1,253,137)	\$ 13,621,702
FY 2001	\$ 13,621,702	1,990,349	(1,368,938)	\$ 14,243,113

As discussed in Note 1.L, the Workers' Compensation Fund, an enterprise fund, establishes a liability for both reported and incurred but not reported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

At June 30, 2001, \$28.9 billion of unpaid claims and claim adjustment expenses are presented at their net present value of \$14.2 billion. These claims are discounted at assumed interest rates of 4.0 (time loss and medical) to 6.5 percent (pensions) and are net of third party recoveries.

The \$14.2 billion claims and claim adjustment liabilities as of June 30, 2001, includes \$6.98 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have

indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining \$7.3 billion in claims liabilities is fully funded by long-term investments, net of obligations under securities lending agreements.

B. Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
FY 2000	\$ 138,292	139,070	(23,496)	(13,619)	\$ 240,247
FY 2001	\$ 240,247	131,096	(85,425)	(17,181)	\$ 268,737

The Risk Management Fund, an internal service fund, reports claims and judgment liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to property and casualty matters. As of June 30, 2001, outstanding and actuarially determined claims against the state and its public authorities were \$268.7 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2001, the Risk Management Fund held no funds designated for payment of these claims under the state's Self Insurance Liability Program.

C. State Employees' Insurance

Changes in the balances of state employees' insurance claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

State Employees' Insurance Fund	Balances Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2000	\$ 23,836	234,972	(223,542)	\$ 35,266
FY 2001	\$ 35,266	262,342	(254,461)	\$ 43,147

The State Employees' Insurance Fund, an internal service fund, establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount. Claims liabilities are re-

evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

At June 30, 2001, state employees' insurance claims liabilities totaling \$43.1 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Note 10 - Bonds Payable

A. General Information

Bonds payable at June 30, 2001, consisted of bonds issued by the state of Washington and accounted for in the General Long-Term Obligations Account Group, and certain state agency bonds accounted for in proprietary funds. A detailed schedule of bonds issued and outstanding and those proprietary bonds accounted for by the State Treasurer are presented in the Washington State Treasurer's Annual Report for 2001. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TDD (360) 902-8963.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1)

temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); (2) appropriations already made by the Legislature; or (3) refunding of outstanding obligations of the state.

Debt authorized in the preceding procedures is generally limited by the State Constitution and current statutes. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service which may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2001 was \$5.4 billion, under the then current constitutional and statutory limitation. This computation excludes specific bond issues and types which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2001, did not exceed the authorized debt service limitation.

Computation of Legal Debt Limitation (expressed in millions)	-
Three year mean, general state revenues	\$ 8,306
Legal Debt Limitation:	
Debt service limitation (7 percent of above)	\$ 581
Less: Projected maximum annual debt service of outstanding bonds	560
Uncommitted Portion of Debt Service Limitation	\$ 21
Remaining state general obligation debt capacity	\$ 299
Plus - Debt outstanding subject to limitation	5,114
Maximum Debt Authorization Subject to Limitation	\$ 5,413

Source: Office of the State Treasurer - Certification of the Debt Limitation of the State of Washington for Fiscal Year 2001.

B. Schedule of Bonds Payable

A schedule of bonds payable by fund type as of June 30, 2001, is as follows (expressed in thousands):

Bonds Payable	Enterprise	Interna Servic		General L.T. Obligations Account Group	Totals
General obligation (GO) bonds	\$ 176,055	\$	_	\$ 7,210,495	\$ 7,386,550
GO - zero coupon bonds (principal)	29,259		-	264,441	293,700
Subtotals	205,314		-	7,474,936	7,680,250
GO - zero coupon bonds' accreted interest	12,190		-	161,319	173,509
Revenue bonds	277,500		-	-	277,500
Total Bonds Payable	\$ 495,004	\$	-	\$ 7,636,255	\$ 8,131,259

C. General Obligation Bonds

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for public and common schools, higher education, public and mental health, corrections, conservation, and maintenance and construction of highways, roads, and bridges. The state has also issued bonds for assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities. In addition, bonds are authorized

and issued to provide for the refunding of general obligation bonds outstanding.

Zero coupon general obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of public administrative buildings and facilities, and capital facilities for public and common schools and higher education.

Total debt service requirements for general obligation bonds to maturity as of June 30, 2001, are as follows (expressed in thousands):

	General C	bligation	Zero Coupon		Tota	als
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						_
2002	\$ 405,365	\$ 389,909	\$ 18,187	\$ 12,534	\$ 423,552	\$ 402,443
2003	371,510	377,108	14,914	13,670	386,424	390,778
2004	346,985	357,076	13,320	14,061	360,305	371,137
2005	353,550	336,815	16,018	19,884	369,568	356,699
2006	361,855	317,055	11,734	16,453	373,589	333,508
2007-2011	1,785,005	1,279,779	56,404	103,400	1,841,409	1,383,179
2012-2016	1,685,235	822,118	50,999	104,773	1,736,234	926,891
2017-2021	1,411,960	370,924	112,124	221,674	1,524,084	592,598
Thereafter	665,085	79,245	-	-	665,085	79,245
Total Debt Service Requirements	\$ 7,386,550	\$ 4,330,029	\$ 293,700	\$ 506,449	\$ 7,680,250	\$ 4,836,478

General obligation bonds outstanding and bonds authorized but unissued at June 30, 2001, are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
School building construction	4.25% to 7.25%	\$ 221,973	\$ 143
Higher education	3.70% to 7.75%	256,441	141,785
Institutional and public buildings	5.83% to 7.05%	29,259	98,510
Highways	4.00% to 7.00%	1,135,885	2,253,275
Administrative buildings	4.50% to 5.00%	15,255	-
General	3.70% to 9.00%	6,021,437	1,457,285
Totals		\$ 7,680,250	\$ 3,950,998

D. Revenue Bonds

Current state statutes empower certain state agencies to issue bonds that are not supported, or are not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Revenue bonds issued by individual agencies are supported by fees and rentals assessed to users. Issuing agencies include the University of Washington (housing, dining, and student facilities construction), Washington State University (housing, dining, parking, and student facilities construction), Eastern Washington University (housing, dining, and student facilities construction), Central Washington University (housing, dining, and student facilities construction), The Evergreen State College (housing and dining), Western Washington University (housing and dining), and various Community Colleges (housing, dining, and student facilities construction).

Total debt service requirements for revenue bonds to maturity at June 30, 2001, are as follows (expressed in thousands):

Revenue Bonds	Principal	Interest	Totals
By Fiscal Year:			
2002	\$ 7,463	\$ 12,433	\$ 19,896
2003	8,679	14,662	23,341
2004	8,806	14,227	23,033
2005	9,126	13,784	22,910
2006	8,917	13,334	22,251
2007-2011	50,271	59,173	109,444
2012-2016	58,939	43,819	102,758
2017-2021	52,493	28,686	81,179
Thereafter	72,806	19,406	92,212
Total Debt Service Requirements	\$ 277,500	\$ 219,524	\$ 497,024

Revenue bonds outstanding and bonds authorized but unissued at June 30, 2001, are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
Higher education - Student acitivities	4.80% to 5.90%	\$ 129,986	\$ 20
Higher education	4.28% to 5.86%	137,373	-
Other public buildings	4.40% to 5.95%	10,141	
Totals		\$ 277,500	\$ 20

E. Defeased Bonds

When advantageous and permitted by statute or bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. The net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been excluded from the state's financial statements.

CURRENT YEAR DEFEASANCES

During the fiscal year ended June 30, 2001, the state issued the following bonds to refund various outstanding issues:

General Long-Term Obligations

On December 15, 2000, the state issued \$12.1 million of Various Purpose General Obligation Refunding Bonds (Series R-2001T) to refund \$10.4 million of Various Purpose General Obligation Bonds from several different series. The refunding resulted in a \$3.5 million reduction in gross debt service savings over the next 19 years but an economic loss of \$0.9 million.

On June 1, 2001, the state issued \$405.6 million of Various Purpose General Obligation Refunding Bonds (Series R-2001A) to refund \$417.9 million of Various Purpose General Obligation Bonds from several different series. The refunding was undertaken to take advantage of \$44.8 million reduction in gross debt service savings over the next 13 years. This refunding resulted in an economic gain of \$37.7 million.

On June 1, 2001, the state issued \$119.6 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2001B) to refund \$120 million of Motor

Vehicle Fuel Tax General Obligation Bonds. The refunding was undertaken to take advantage of \$12.3 million reduction in gross debt service savings over the next 9 years. This refunding resulted in an economic gain of \$10.4 million.

Proprietary Funds

On February 15, 2001, \$22.2 million in Housing and Dining Service Refunding Bonds (Series R-2001) were issued to refund \$20.6 million in Housing and Dining Service Bonds (Series 1994). This refunding was undertaken to take advantage of \$2.3 million reduction in gross debt service savings over the next 24 years. This refunding resulted in an economic gain of \$1.4 million.

PRIOR YEAR DEFEASANCES

State refunded and defeased bonded debt outstanding totaled \$179 million for general governmental bonded debt and \$66 million for proprietary bonded debt as of June 30, 2001.

F. School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999 creating the Washington State School Bond Guarantee Program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the payment of voter-approved school district general obligation bonds. The State Treasurer introduced the new School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2001, the state had guaranteed 52 school districts' voter-approved general obligation debt with a total outstanding principal of \$748.8 million.

Note 11 - Certificates of Participation

Current state law authorizes the state to enter into longterm financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature. Other specific provisions could also impact the state's obligation under certain agreements. If the possibility of the state not meeting the terms of the agreement is considered remote, the certificate of participation is recorded for financial reporting purposes.

Total debt service requirements for certificates of participation to maturity as of June 30, 2001, are as follows (expressed in thousands):

Certificates of Participation	Principal	Interest	Total
By Fiscal Year:			
2002	\$ 28,816	\$ 23,506	\$ 52,322
2003	31,443	22,385	53,828
2004	29,365	20,997	50,362
2005	28,235	19,658	47,893
2006	26,535	18,387	44,922
2007-2011	124,631	74,677	199,308
2012-2016	169,465	38,933	208,398
2017-2021	47,115	4,863	51,978
Thereafter	2,855	140	2,995
Total Debt Service Requirements	\$ 488,460	\$ 223,546	\$ 712,006

On September 1, 1998, the state lease-purchase program was extended to enable local government to participate in low cost financing of essential equipment (Local Option Capital Asset Lending Program (LOCAL)). The program allows local participants to pool their financing requests together with Washington State agencies for lower tax-exempt interest rates. While these bonds do

not constitute a debt or pledge of the faith and credit of the state, in the event of default these financing contracts have the state's guarantee to the extent of legally available appropriated funds. As of June 30, 2001, outstanding certificates of participation bonds totaled \$17.7 million for 104 local governments participating in LOCAL.

Note 12 - No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements.

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The table below presents the latest available balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

No Commitment Debt	Principal Balance
Washington State Housing Finance Commission	\$ 1,940,972
Washington Higher Education Facilities Authority	321,384
Washington Health Care Facilities Authority	2,222,396
Washington Economic Development Finance Authority	178,596
Total No Commitment Debt	\$ 4,663,348

Note 13 - Changes in General Long-Term Obligations

The changes in the General Long-Term Obligations Account Group for the fiscal year ended June 30, 2001, are summarized as follows (expressed in thousands):

General Long-Term Obligations	Balance July 1, 2000	Debt Issued	Debt Paid	Other Changes	Balance June 30, 2001
Bonds:					
General obligation (GO)	\$ 6,775,715	1,314,019	(879,239)	-	\$ 7,210,495
GO - zero coupon bonds (principal)	279,210	-	(14,769)	-	264,441
GO - zero coupon bonds' accreted interest	125,702	35,617	-	-	161,319
Notes and contract obligations	191,645	23,321	(1,383)	-	213,583
Other Long-Term Obligations:					
Lease obligations (net)	6,135	-	-	9,915	16,050
Compensated absences (net)	324,765	-	-	19,394	344,159
Other obligations (net)	3,863	-	-	3,724	7,587
Claims and judgements (net)	11,596	-	-	(2,391)	9,205
Accrued retirement costs	36,800	-	-	3,300	40,100
Totals	\$ 7,755,431	1,372,957	(895,391)	33,942	\$ 8,266,939

Note 14 - Residual Equity Transfers

The table below reflects residual equity transfers in and out and related activity that occurred during the fiscal year ended June 30, 2001, (expressed in thousands):

Residual Equity Transfers	In	Out
Motor Vehicle Fund	\$ 8,387	\$ -
Transportation Fund	-	376
Higher Education Fund	402	-
State Ferry Fund	298,696	-
Student Services Fund	-	98
Equipment Revolving Fund	-	1,000
Higher Education Revolving Fund	-	55
Higher Education Trust Fund	-	248
Higher Education Endowment Fund	-	1
Subtotals	307,485	1,778
Transferred to/from Account Groups	-	305,707
Total Residual Equity Transfers	\$ 307,485	\$ 307,485

Note 15 - Reservations and Designations of Equity

The nature and purposes of equity reserves and designations as of June 30, 2001, are listed below (expressed in thousands):

Reservations and Designations of Fund Balance

		Special	Debt	Capital		Totals
	General	Revenue	Service	Projects	Trust	(Memo Only)
Reserved for:						
Encumbrances	\$ 7,585	\$ 198,447	\$ -	\$ 59,477	\$ 83,457	\$ 348,966
Inventories	14,619	37,969	-	-	155	52,743
Long-term student loans	-	-	-	-	97,601	97,601
Investments with trustees	581	439	-	-	1,191	2,211
Restricted accounts	303,060	-	-	-	-	303,060
Nonexpendable trust corpus	-	-	-	-	1,691,211	1,691,211
Unemployment compensation	-	-	-	-	1,956,833	1,956,833
Deferred compensation	-	-	-	-	1,311,889	1,311,889
Pension benefits	-	-	-	-	44,012,695	44,012,695
Local Gov't Invest. Pool participants	-	-	-	-	4,990,566	4,990,566
Long-term receivables	612,597	12,309	-	3,511	287,289	915,706
Long-term investments	1,022	52,137	-	-	119,862	173,021
Emergency reserve	476,385	-	-	-	-	476,385
Petty cash	624	4,874	-	-	69	5,567
Total Reserved Fund Balance	\$ 1,416,473	\$ 306,175	\$ -	\$ 62,988	\$ 54,552,818	\$ 56,338,454
Unreserved, Designated for:						
Debt service	\$ -	\$ -	\$ 82,935	\$ -	\$ -	\$ 82,935
Working capital	856,248	-	-	-	-	856,248
Net unrealized gains	15,079	34,246	-	-	-	49,325
Higher education	-	155,679	-	-	4,463	160,142
Total Unreserved,						
Designated Fund Balance	\$ 871,327	\$ 189,925	\$ 82,935	\$ -	\$ 4,463	\$ 1,148,650

Note 16 - Deficit Retained Earnings

At June 30, 2001, there were two proprietary funds with deficit retained earnings.

The Workers' Compensation Fund, an enterprise fund, had deficit retained earnings of \$5.4 billion at June 30, 2001. The fund is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main

benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

The following schedule details the changes in total fund equity for the Workers' Compensation Fund during the fiscal year ended June 30, 2001, (expressed in thousands):

Workers' Compensation Fund	Contributed Capital	Retained Earnings (Deficit)	Total Fund Equity (Deficit)
Balances as restated, July 1, 2000 Fiscal Year 2001 activity	\$ 23	\$ (5,063,334) (362,864)	\$ (5,063,311) (362,864)
Balances, June 30, 2001	\$ 23	\$ (5,426,198)	\$ (5,426,175)

The Risk Management Fund, an internal service fund, had deficit retained earnings of \$271.2 million at June 30, 2001. The Risk Management Fund is used to account for the claims, torts, judgments generally arising from automobile, ferry services, and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit retained earnings.

The Self Insurance Liability Program initiated in 1990 is intended to provide funds for the payment of all claims and loss adjustment expenses for tort defense.

The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2001, the Risk Management Fund held no funds designated for payment of these claims under the state's Self Insurance Liability Program.

The following schedule details the changes in retained earnings for the Risk Management Fund during the fiscal year ended June 30, 2001, (expressed in thousands):

Risk Management Fund	Retained Earnings (Deficit)
Balance as restated, July 1, 2000 Fiscal Year 2001 activity	\$ (184,115) (87,037)
Balance, June 30, 2001	\$ (271,152)

Note 17 - Retirement Systems

A. General

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrator for the Courts, administers eleven defined benefit retirement plans and three defined contribution retirement plans covering eligible employees of the state and local governments. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

DEPARTMENT OF RETIREMENT SYSTEMS

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers seven retirement systems comprising ten defined benefit pension plans and two defined contribution plans as follows:

Public Employees' Retirement System (PERS)

Plan 1 - defined benefit

Plan 2 - defined benefit

Teachers' Retirement System (TRS)

Plan 1 - defined benefit

Plan 2/3 - defined benefit

Plan 3 - defined contribution

School Employees' Retirement System (SERS)

Plan 2/3 – defined benefit

Plan 3 – defined contribution

Law Enforcement Officers' and Fire Fighters'

Retirement System (LEOFF)

Plan 1 - defined benefit

Plan 2 - defined benefit

Washington State Patrol Retirement System (WSPRS)

Defined benefit plan

Judicial Retirement System (JRS)

Defined benefit plan

Judges' Retirement Fund (Judges)

Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, and LEOFF systems and plans is funded by an employer rate of .23 to .25 percent of employee salaries. Administration of the WSPRS, JRS, and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a standalone financial report. Copies of the report that include financial statements and required supplemental information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

BOARD FOR VOLUNTEER FIRE FIGHTERS

As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

ADMINISTRATOR FOR THE COURTS

As established in chapter 2.14 RCW, the Administrator for the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

TIAA/CREF

Eligible higher education state employees may participate in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) which is a privately administered defined contribution plan.

Plan descriptions, funding policies, and a table of employer contributions required and paid for defined benefit plans follow at Notes 17.B through D respectively. For information related to defined contribution plans, refer to Note 17.I. Details on plan net assets for pension plans administered by the state are presented at Note 17.J.

B. Plan Description

Membership of each defined benefit plan consisted of the following at December 31, 2000, the date of the latest actuarial valuation for all plans except for TRS which had an actuarial valuation performed on June 30, 2000.

Defined Benefit Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
PERS 1	53,161	3,220	23,915	1,918	82,214
PERS 2	7,927	14,094	74,103	52,325	148,449
TRS 1	29,839	1,985	16,878	344	49,046
TRS 2/3	611	3,441	23,372	23,264	50,688
SERS 2/3	27	733	25,338	22,387	48,485
LEOFF 1	7,780	31	1,497	2	9,310
LEOFF 2	143	248	9,183	3,950	13,524
WSPRS	672	84	762	251	1,769
JRS	131	2	32	-	165
Judges	18	-	1	-	19
VFFRPF	2,638	3,960	5,035	7,219	18,852

Following is a summary of government employers participating in state administered retirement plans as of December 31, 2000.

Plan	State Agencies	Public Schools	Counties/ Municipalities	Other Political Subdivisions
PERS 1	178	257	216	257
PERS 2	186	1	265	443
TRS 1	91	287	-	-
TRS 2/3	48	294	-	-
SERS 2/3	10	294	-	-
LEOFF 1	-	-	119	30
LEOFF 2	7	-	227	128
WSPRS	1	-	-	-
JRS	3	-	-	-
Judges	1	-	-	-
VFFRPF	-	-	-	520

Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those joining after September 30, 1977, are Plan 2 members. PERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to PERS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts; employees of legislative committees; community and technical college, college, and university employees not in national higher education retirement programs such as TIAA/CREF; judges of district and municipal courts; noncertificated employees of school districts (in PERS Plan 1 only); and employees of local governments. Approximately 51 percent of PERS salaries is from state employment.

Retirement benefit provisions are established in state statute and may be amended only by the state Legislature. PERS benefits are vested after an employee completes five years of eligible service.

Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of membership service (AFC is based on the greatest compensation during any eligible 24 consecutive compensation months), capped at 60 percent of AFC.

Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent per year of membership service of the AFC (AFC is based on the greatest compensation during any consecutive eligible 60 month period). Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 1 provides duty and nonduty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The amount of the allowance is two-thirds of the AFC, not to exceed \$4,200 a year. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or attains the age of 60. A member with five years of membership service is eligible for nonduty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year by which the date of disablement precedes the disabled member's 55th birthday. The total benefit is limited to 60 percent of the AFC.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. There were no other material changes in PERS benefit provisions effective for the fiscal year ended June 30, 2001. The 2000 session created PERS Plan 3 which offers both a defined benefit component and a defined contribution component. For state and higher education employees, PERS Plan 3 goes into effect March 1, 2002, and for local government employees, September 1, 2002. Current PERS Plan 2 members have the option to transfer to PERS Plan 3. PERS members hired after the effective date of PERS Plan 3 have the option of selecting membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans: Plans 1 and 2/3 are defined benefit plans and Plan 3 is a defined contribution plan. TRS participants who joined the system by September 30, 1977 are Plan 1 members. Those joining between October 1, 1977, and June 30, 1996, are Plan 2/3 members unless they exercise an option to transfer their holdings to Plan 3. Those joining after June 30, 1996, and those exercising the transfer option, are members of both Plan 2/3 and Plan 3. TRS retirement benefits are financed from a combination of investment earnings and employer and employee Employee contributions to the TRS contributions. defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public

schools. TRS is comprised principally of nonstate employees.

TRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature. Defined benefit plan benefits are vested after an employee completes five years of eligible service in Plans 1 or 2, and from five to ten years in TRS Plan 3.

Teachers in Plan 1 are eligible to retire either after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The benefit is 2 percent of the average earnable compensation per year of service (average earnable compensation is based on the greatest compensation during the highest of any consecutive two compensation contract years).

The normal retirement age for Plan 2/3 employees is 65. However, members are eligible to retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service. Plan 3 retirement benefits may be paid at age 55 with 10 years of service. Plan 2/3 benefits are 2 percent of the average final compensation per year of service for members not enrolled in Plan 3 Defined Contribution Plan (DC) and 1 percent of the average final compensation per year of service for members enrolled in Plan 3 DC. TRS Plan 1 and Plan 2/3 also provide a cost-of-living allowance indexed to the Seattle Consumer Price Index capped at 3 percent annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan 2/3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply.

Death and disability benefits are available in Plan 1. TRS Plan 1 members receive the following additional lump sum death benefits: retired members - \$400 (if at least ten years of membership service), active members - \$600. Members on temporary disability receive a temporary life annuity of \$180 per month payable up to two years. After five years of service, members on a disability retirement receive an allowance based on salary and service to date of disability. Members prior to April 25, 1973 may elect a benefit based on the formula in effect at that time.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. There were no material changes in TRS benefit provisions effective for the fiscal year ended June 30, 2001.

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans: Plan 2/3 is a defined benefit plan and Plan 3 is a defined contribution plan. SERS Plan 2/3 was formed by transferring school employees from PERS Plan 2 to SERS Plan 2/3 on September 1, 2000. These members had the option of transferring to SERS Plan 3. Those school employees hired after September 1, 2000, become SERS Plan 3 members. SERS retirement benefits are financed from a combination of investment earnings and employer and Employee contributions to employee contributions. SERS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

Membership in the system includes non-certificated employees of school districts, except those in PERS Plan 1.

Retirement benefit provisions are established in state statute and may be amended only by the state Legislature. SERS Plan 2 benefits are vested after an employee completes five years of eligible service, and from five to ten years in SERS Plan 3.

The normal retirement age for Plan 2/3 employees is 65. However, members are eligible to retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service. Plan 3 retirement benefits may be paid at age 55 with 10 years of service. Plan 2/3 benefits are 2 percent of the average final compensation per year of service for members not enrolled in Plan 3 Defined Contribution Plan (DC) and 1 percent of the average final compensation per year of service for members enrolled in Plan 3 DC. SERS Plan 2/3 also provides a cost-of-living allowance indexed to the Seattle Consumer Price Index capped at 3 percent annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan 2/3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. A technical correction was made in the funding provisions for this plan.

There were no other material changes in SERS benefit provisions effective for the fiscal year ended June 30, 2001.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those joining after September 30, 1977 are Plan 2 members. LEOFF retirement benefits are financed from a combination of investment earnings, employer and emplovee contributions, and a special funding situation where the state pays the remainder through state legislative appropriations. Employee contributions to LEOFF accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF can elect to withdraw total employee contributions and interest earnings thereon upon termination. Effective July 1, 2000, the employer and employee contribution rate, for LEOFF Plan 1, is set to zero contingent on the plan remaining fully funded.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. LEOFF membership is comprised principally of nonstate employees.

LEOFF retirement benefits are established in state statute and may be amended only by the state Legislature. LEOFF System benefits are vested after an employee completes five years of eligible service.

Plan 1 participants are eligible to retire with five years of service at the age of 50. The benefit per year of service is calculated as a percent of average final salary as follows: 5-10 years - 1.0 percent, 10-20 years - 1.5 percent, 20+ years - 2.0 percent. The average final salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months salary within the last ten years of service. Retirement benefits are fully indexed to the Seattle Consumer Price Index.

Plan 2 participants are eligible to retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service. Retirement benefits prior to the age of 53 are reduced 3% for each year that the benefit commences prior to age 53. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. Retirement

benefits are indexed to the Seattle Consumer Price Index with a cap of 3 percent annually.

Significant death and disability benefits are provided by Plan 1. Death benefits for Plan 1 members on active duty consist of the following: (1) if eligible spouse, 50 percent of the average final salary, plus 5 percent of average final salary for each surviving child, with a limitation on the combined allowances of 60 percent of the average final salary; or (2) if no eligible spouse, 30 percent of average final salary for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of average final salary. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

Plan 1 members are eligible for disability benefits after a six-month waiting period (during which the salary is paid by the employer). The amount of the allowance is 50 percent of the average final salary plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance. These benefit provisions were established by statute.

Legislation passed in the 2001 session corrected the age from which disability benefits are reduced from 55 to 53. There were no significant changes in LEOFF benefit provisions for the fiscal year ended June 30, 2001.

Washington State Patrol Retirement System (WSPRS)

WSPRS is a single-employer retirement system comprised of one defined benefit plan. WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate.

Members are eligible to retire at the age of 55 or after 25 years of service with a benefit of 2 percent of average final salary per year of service. The benefit is capped at 75 percent of average final salary. In addition, a 2 percent cost-of-living allowance is included. Starting on

July 1, 2001 the cost-of-living allowance was increased to a 3 percent compound increase.

WSPRS retirement benefits are established in state statute and may be amended only by the state Legislature. Benefits are vested after an employee completes five years of eligible service.

Benefit provisions include death benefits; however, the system contains no disability benefits. The death benefit for a spouse of a member on active duty consists of 50 percent of average final salary, and 5 percent of average final salary for each surviving child, with a limitation on the combined allowance of 60 percent of average final salary. The death benefit also provides a uniform COLA after a member's death. In addition, a duty death benefit of \$150,000 is provided.

Effective July 1, 2001, the employee rate for WSPRS was set to the greater of 2% or employer rate (and the funding method was changed to the aggregate cost method as done for the other Plan 2/3 systems). Starting on July 1, 2001 the cost-of-living allowance was increased to a 3 percent compound increase. Voluntary Department of Transportation overtime was excluded from the definition of salary. There were no other significant changes in WSPRS benefit provisions for the fiscal year ended June 30, 2001.

There were significant changes in benefit provisions for those commissioned after January 1, 2003:

- 1. Changing from a 2 year to a 5 year Average Final Salary (AFS).
- 2. Excluding annual and holiday pay cash-outs.
- 3. Changing military service to include only up to 5 years interruptive military service.
- 4. Removing the post-retirement death benefit and allowing the member to select an actuarial equivalent benefit option at retirement.
- 5. Changing the pre-retirement death benefit to return of the member's accumulated contributions for members who are single or have less than ten years of service. For a married member or one with an eligible child, changing the pre-retirement death benefit to a reduced accrued benefit or 150 percent of the member's accumulated contributions at the survivor's option.

These changes will be reflected in valuations which include members commissioned after January 1, 2003.

Judicial Retirement System (JRS)

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis

from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation where the state pays the remaining contributions. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2.

Benefit provisions are established in state statute and may be amended only by the state Legislature. Any member who involuntarily terminates with 12 or more years of credited service and 15 years after beginning judicial service, or voluntarily terminates with 15 or more years of credited service, is vested and shall receive retirement benefits upon attaining the age of 60. Retirement benefits are 3 percent of the average final compensation for 10-15 years of service, and 3.5 percent for 15 or more years of service.

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired, or if greater, 25 percent of the average final compensation of the member. These benefits terminate with the death or remarriage of the recipient. If the member is retired, a 50 percent allowance is provided to the surviving spouse that has been married to the judge at least three years at the time of death. Benefits terminate on remarriage. For members with ten or more years of service, a disability benefit of 50 percent of salary is provided.

There were no significant changes made in JRS benefit provisions for the fiscal year ended June 30, 2001.

Judges

The Judges' Retirement Fund is an agent multipleemployer retirement system comprised of a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation where the state pays the remaining contributions. Employees do not earn interest on their contributions, nor can they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to chapter 2.12 RCW, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of

the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971 enter the Judicial Retirement System.

Benefit provisions are established in statute and may be amended only by the state Legislature. Any member who has ten years of credited service and attains the age of 70 or has served as a judge for an aggregate of 18 years, regardless of age, is vested and entitled to receive a retirement allowance upon leaving service. Any member who leaves eligible service after having served as a judge for an aggregate of 12 years is vested and eligible for a partial retirement allowance. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no significant changes made in Judges benefit provisions for the fiscal year ended June 30, 2001.

The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments.

VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

VFFRPF was created by the Legislature in 1945. Membership in the system requires volunteer service with a fire department of an electing municipality of Washington State.

Retirement benefits are established in state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$30 plus \$10 per year of service. The

maximum monthly benefit is \$280. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$2,000. Funeral and burial expenses are also paid in a lump sum of \$2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid \$500. Members on active duty shall receive disability payments of \$2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive \$1,275 per month, their spouse \$255, and dependent children \$110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the CPI.

There were no other significant changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2001.

C. Funding Policies

During the 2001 Session, the Legislature decided to adopt rates based on the 1999 valuation calculated in accordance with the Funding Policy with the following modifications:

- 1. An 8% investment return assumption was prescribed.
- 2. A 4.5% salary inflation assumption was prescribed.
- 3. The amortization of the PERS Plan 1 and TRS Plan 1 unfunded actuarial liability was extended to June 30, 2024. This amortization will no longer be reduced due to future gain sharing.

This replaced the rates adopted by the Pension Funding Council for the 2001-03 Biennium, as adjusted for legislation passed since they were adopted.

A four-year asset smoothing technique is adopted for studies done after July 1, 2001, along with the above changes, subject to future modification by the Pension Funding Council.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee rates. The employee contribution rate for Plan 1 is established by statute at 6 percent and does not vary from year to year. The

employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW. All employers are required to contribute at the level required by the Legislature.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

PERS Actual Contribution Rates

	PLAN 1	PLAN 2
Employer Rates:		
State agencies*	4.67%	4.67%
Local governmental units*	4.67%	4.67%
State gov't elected officials*	6.89%	4.67%
Employee Rates:		
State agencies	6.00%	2.43%
Local governmental units	6.00%	2.43%
State gov't elected officials	7.50%	2.43%

^{*}Includes an administrative expense rate of 0.23 percent.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rate and Plan 2/3 employer and employee contribution rates. The employee contribution rate for Plan 1 is established by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2/3 are developed by the Office of the State Actuary to fully fund Plan 2/3. The methods used to determine the contribution requirements are established under state statute as per chapters 41.32 and 41.45 RCW. All employers are required to contribute at the level established by the Legislature. Employees who participate in the DC portion of the TRS 2/3 Plan do not contribute to the DB portion of the TRS 2/3 Plan.

Required contributions (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

TRS Actual Contribution Rates

Employer Rates *	PLAN 1 7.33%	PLAN 2/3 7.33%					
Employer reales	7.0070	7.5576					
Employee Rates:							
State agencies	6.00%	3.01%					
Local governmental units	6.00%	3.01%					
State gov't elected officials	7.50%	3.01%					

^{*} Includes an administrative expense rate of 0.23 percent.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2/3 employer and employee contribution rates. The employer and employee contribution rates for Plan 2/3 are developed by the Office of the State Actuary to fully fund Plan 2/3. The methods used to determine the contribution requirements are established under state statute as per chapters 41.35 and 41.45 RCW. All employers are required to contribute at the level established by the Legislature. Employees who participate in the SERS 3 defined contribution plan do not contribute to the defined benefit portion of the SERS 2/3 Plan.

Required contributions (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

SERS Actual Contribution Rates

	PLAN 1	PLAN 2/3
Employer Rates*	NA	4.67%
Employee Rates	NA	2.43%

^{*}Includes an administrative expense rate of 0.23 percent

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

For Plan 1, employers and employees are required to contribute at a rate of 6 percent, and the state is responsible for the balance of the funding at rates set by the Pension Funding Council. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

LEOFF Actual Contribution Rates

2201171014419	ontribution rtate	, ,
	PLAN 1	PLAN 2
Employer Rates:		
Ports and Universities*	NA	7.01%
Local governmental units*	0.23%	4.30%
Employee Rates:		
Ports and Universities	NA	6.78%
Local governmental units	NA	6.78%
State of Washington	NA	2.71%

^{*}Includes an administrative expense rate of 0.23 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the

requirements of the Pension Funding Council. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute.

Washington State Patrol Retirement System (WSPRS)

State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 3 percent for Fiscal Year 2001. The contribution rate for the state is adopted by the Pension Funding Council in accordance with chapter 41.45 RCW. The state is required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

WSPRS	Actual	Contribut	tion Rates

Employer Contributions	0.00%
Employee Contributions	3.00%

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2001, the state contributed \$7 million.

Judges

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2001, the state contributed \$.75 million.

The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

The retirement provisions of VFFRPF is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. The death and disability provisions of VFFRPF are funded by an employer contribution rate of \$10 per member.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

D. Employer Contributions Required and Paid

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2001	2000	1999
PERS Plan 1	\$94.0	\$102.6	\$119.3
PERS Plan 2	58.2	44.1	103.0
TRS Plan 1	3.5	4.7	6.0
TRS Plan 2/3	0.3	.3	.5
SERS Plan 2/3	0.0	NA	NA
LEOFF Plan 1	0.0	0	48.8
LEOFF Plan 2	21.1	17.3	22.2
VFFRPF	3.3	2.7	2.5

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation (NPO) in millions to the plans listed for the current year were as follows:

	WSPR	JRS	Judges
	S		
Annual Required Contribution	\$(11.9)	\$13.3	\$0.2
Interest on NPO	(4.3)	2.9	(0.2)
Adjustment to annual required			
contribution	6.7	(5.6)	0.4
Annual Pension Cost	(9.5)	10.6	0.4
Less Contributions Made	0.0	7.3	8.0
Increase (decrease) in NPO	(9.5)	3.3	(0.4)
NPO at beginning of year	(54.2)	36.8	(2.6)
NPO at end of year	(63.7)	40.1	(3.0)

The valuation date for the plans is 12/31/2000. The actuarial cost method for the WSPRS is aggregate and for JRS and Judges is entry age normal. The unfunded amount is being amortized as a level dollar amount to 12/31/08 for JRS. All other methods and assumptions are the same as used in funding and disclosed in "Notes to Required Supplementary Schedules – Defined Benefit Pension Plans."

F. Three Year Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2001	2000	1999
WSPRS			
Annual Pension Cost	\$(9.5)	\$(11.0)	\$(6.5)
% of APC contributed	0.0	0.0	-90.8
NPO	\$(63.7)	\$(54.2)	\$(43.2)
JRS	, ,	, ,	, ,
Annual Pension Cost	\$10.6	\$10.3	\$10.3
% of APC contributed	68.9	70.9	85.4
NPO	\$40.1	\$36.8	\$33.8
Judges			
Annual Pension Cost	\$0.4	\$0.5	\$0.4
% of APC contributed	200.0	160.0	200.0
NPO	\$(3.0)	\$(2.6)	\$(2.3)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions

For studies done after July 1, 2001, the investment assumption was changed from 7.5% to 8.0% and the salary inflation assumption was increased from 4.0% to 4.5%. The contribution rates for the 2001-03 Biennium were based on these new assumptions as well.

H. Changes in Benefit Provisions

The School Employees' Retirement System (SERS) 2/3, was created by the Washington State Legislature in 1998. Beginning September 1, 2000, all eligible classified employees of school districts and educational service districts who are members of PERS Plan 2 automatically become members of SERS Plan 2. The benefits in SERS Plan 2 are identical to the benefits in PERS Plan 2. SERS Plan 2 members may choose to transfer to SERS Plan 3, which offers both a defined benefit component and a defined contribution component.

Changes in contribution rates were made as described above.

The PERS, TRS, and SERS systems allowed retirees to work more hours before their benefits are suspended.

WSPRS increased their cost-of-living allowance from a simple 2% annual increase to a compound 3% annual

increase. Voluntary Department of Transportation overtime was excluded from the plan's definition of salary.

LEOFF and SERS had corrections made for errors in prior legislation.

Other changes had no material impact or were not effective this year and will not be recognized until members transfer to PERS 3 as described in Section B of this note.

I. Defined Contribution Plans

Teachers Retirement System Plan 3 (TRS 3)

The Teachers Retirement System Plan 3 is a defined contribution (DC) plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include certificated employees in grades K-12 in the public schools hired after July 1, 1996, and those TRS 2/3 members who elect to transfer. There are 331 participating employers in TRS 3. Refer to Section B of this note for TRS plan descriptions.

As established by chapter 41.34 RCW, employee contribution rates range from 5 percent to 15 percent of salaries based on age. There are currently no requirements for employer contributions.

TRS 3 DC retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefit Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2001, employee contributions required and made were \$125.3 million and plan refunds paid out were \$20.1 million.

The School Employees' Retirement System (SERS 3)

The School Employees' Retirement System Plan 3 is a defined contribution (DC) plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who are SERS 2/3 members after September 1, 2000, who elect to transfer. As of June 30, 2001, there are 295 participating employers in SERS 3. Refer to Section B of this note for SERS plan descriptions.

As established by RCW 41.35, employee contribution rates range from 5 percent to 15 percent of salaries based

on age. There are currently no requirements for employer contributions.

SERS 3 retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2001, employee contributions required and made were \$13.7 million and plan refunds paid out were \$2.2 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state of Washington Administrator for the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of

the PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Employee contributions equal 2.5 percent of salary and the state, as employer, matches this amount. Contributions are collected by the Administrator for the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Current-year covered payroll for JRA employees was \$19.3 million for the fiscal year ended June 30, 2001. For Fiscal Year 2001, the contribution requirement for JRA was \$968,000. Actual employer and employee contributions were \$484,000 each, for a total of \$968,000. Plan benefits paid out for Fiscal Year 2001 totaled \$335,753.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to such a person or persons having an insurable interest in the member's life, per written designation of the member.

Membership in TRS 3, SERS 3, and the Judicial Retirement Account consisted of the following at December 31, 2000:

Plan Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
TRS 3	92	1.242	16.036	22.244	39.614
SERS 3	0	196	13,347	8,664	22,207
JRA	0	11	179	n/a	190

Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF)

TIAA/CREF, privately administered defined contribution plans, provide individual retirement fund contracts for each eligible employee. There are 38 participating state employers in the TIAA/CREF plan. Eligible employees include higher education faculty and other positions as designated by each institution; participation was established under chapter 28B.10 RCW. The employee must commence participation within the first two years of employment. Once eligible to participate in this system, members are vested immediately.

Employee contribution rates, which are based on age, range from 5 to 10 percent of salary. These rates are matched by the institution and sent to TIAA/CREF. The

employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2001, covered payroll for TIAA/CREF employees was \$1 billion and the contribution requirement for TIAA/CREF was \$176 million. Actual employer and employee contributions were \$88 million each, for a total of \$176 million. These contribution amounts represent approximately 8 percent of covered payroll for employers and employees.

TIAA/CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA/CREF.

Upon retirement, participant accumulations are used to purchase an annuity. The benefits are determined as follows: TIAA - accumulations are converted to a fixed guaranteed annuity payable for life. In addition to the

guaranteed annuity, a dividend payment is declared each year depending on investment performance; CREF - at retirement the value of the fund is converted to a variable annuity. This means the annuity is not guaranteed but rises and falls with the value of equity investments.

J. Plan Net Assets

Pension plan investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real

estate investments has been estimated based on independent appraisals. Private equity investments are valued by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value equals 5 percent or more of each plan's net assets.

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities.

Combining Statement of Plan Net Assets

Defined Benefit Pension Plans and Other Pension Trust Funds

June 30, 2001 (expressed in thousands)

	Plan 1	Employees' Plan 2	Teachers' Plan 1	Plan 2/3 Defined Benefit	Plan 3 Defined Contribution	Plan 2/3 Defined Benefit
Assets: Cash and pooled investments	\$ 5,636	\$ 940	\$ 4,956	\$ 1,232	\$ 911	\$ 700
•	\$ 5,050	ŷ 740	\$ 4,750	\$ 1,232	ψ 711	\$ 700
Receivables:	40.050	40.200	42.052	15 521	2.001	/ 10/
Interest and dividends	48,858	48,390	42,053	15,531	3,881	6,186
Contributions	7,768	21,599	9,667	13,134	-	4,641
Due from other funds	3,520	312	124	2.105	-	3,051
Other	7,485	6,678	6,058	2,105	526	837
Total Receivables	67,631	76,979	57,902	30,778	4,407	14,715
Investments, Noncurrent:						
Asset backed securities	123,142	122,218	105,964	39,078	9,877	15,774
Collaterialized mort oblig	427,884	424,674	368,197	135,784	34,321	54,812
Commercial paper	19,682	19,534	16,937	6,246	1,579	2,521
Corporate bonds	1,376,304	1,365,978	1,184,316	436,754	110,395	176,304
Corporate stock	465,063	461,574	400,189	147,582	37,303	59,574
Govt securities domestic	89,170	88,501	76,732	28,297	7,152	11,423
Govt securities foreign	40,456	40,153	34,813	12,838	3,245	5,182
Government bonds	1,988	1,973	1,710	631	159	255
Repurchase agreements	84,576	83,941	72,778	26,839	6,784	10,834
Certificates of deposit	115,507	114,641	99,395	36,655	9,265	14,796
Mutual funds	4,595,400	4,560,922	3,954,363	1,458,297	368,602	588,669
Mortgages	227,022	225,318	195,353	72,043	18,210	29,081
Real estate	862,256	855,787	741,975	273,627	69,163	110,455
Private equity	1,361,913	1,351,695	1,171,933	432,187	109,241	174,460
Investments on loan	468,559	465,044	403,197	148,692	37,584	60,023
Short term investments	387,624	397,199	341,049	136,746	29,393	41,419
Other noncurrent investments	1,628	392	1,288	371	813,523	167
Total Investments, Noncurrent	10,648,174	10,579,544	9,170,189	3,392,667	1,665,796	1,355,749
Total Assets	10,721,441	10,657,463	9,233,047	3,424,677	1,671,114	1,371,164
Liabilities:				_		
Obligations under security						
lending agreements	484,399	480,130	417,058	154,363	38.485	61,531
Accrued liabilities	21,859	12,626	17,839	4,277	579	1,425
Due to other funds	643	4,516	275	592	-	3,723
Total Liabilities	506,901	497,272	435,172	159,232	39,064	66,679
Net Assets Held in Trust						
for Pension Benefits						
(Schedule of funding progress						
by plan begins on page 96)	\$ 10,214,540	\$ 10,160,191	\$ 8,797,875	\$ 3,265,445	\$ 1,632,050	\$ 1,304,485

School			Washington				Volunteer	
Employees'			State				Fire	
Plan 3		. = 0 = =	Patrol	Judicial	Judicial	Judges'	Fighters'	
Defined	LEOFF	LEOFF	Retirement	Retirement	Retirement	Retirement	Retirement	Totals
Contribution	Plan 1	Plan 2	System	System	Account	Fund	System	June 30, 2001
\$ 250	\$ 1,915	\$ 456	\$ 489	\$ 344	\$ 6	\$ 4,910	\$ 4,375	\$ 27,120
1,677	23,869	11,203	3,149	34	-	-	549	205,380
-	-	7,472	82	18	-	1	-	64,382
-	7	6	1	2	-	19	5	7,055
227	3,297	1,550	428	22	-	-	74	29,287
1,904	27,173	20,231	3,660	76	-	20	628	306,104
4,036	60,144	28,269	7,943	-	-	-	1,386	517,831
14,022	208,985	98,228	27,598	-	-	-	4,816	1,799,321
645	9,613	4,518	1,270	-	-	-	222	82,767
45,103	672,207	315,953	88,771	-	-	-	15,492	5,787,577
15,241	227,144	106,763	29,997	-	-	-	5,235	1,955,665
2,922	43,552	20,470	5,752	-	-	-	1,004	374,975
1,326	19,759	9,287	2,609	-	-	-	455	170,123
65	971	456	128	-	-	-	22	8,358
2,772	41,308	19,416	5,455	-	-	-	952	355,655
3,785	56,416	26,517	7,450	-	-	-	1,300	485,727
150,598	2,244,462	1,054,947	296,403	-	-	-	51,727	19,324,390
7,440	110,881	52,116	14,643	-	-	-	2,555	954,662
28,257	421,139	197,945	55,615	-	-	-	9,706	3,625,925
44,632	665,179	312,649	87,843	-	-	-	15,330	5,727,062
15,355	228,851	107,565	30,222	-	-	-	5,274	1,970,366
28,259	189,770	97,576	25,297	9,517	-	-	4,347	1,688,196
140,984	705	93	89	68	9,361	781	183	969,633
505,442	5,201,086	2,452,768	687,085	9,585	9,361	781	120,006	45,798,233
507,596	5,230,174	2,473,455	691,234	10,005	9,367	5,711	125,009	46,131,457
16,634	236,525	111,312	31,242	64	1	741	5,605	2,038,090
490	7,381	2,730	1,130	149	-	12	137	70,634
-	106	177	5	-	-	-	1	10,038
17,124	244,012	114,219	32,377	213	1	753	5,743	2,118,762
\$ 490,472	\$ 4,986,162	\$ 2,359,236	\$ 658,857	\$ 9,792	\$ 9,366	\$ 4,958	\$ 119,266	\$ 44,012,695

Note 18 - Segment Information - Enterprise Funds

The state of Washington operates enterprise funds which are intended to be self-supported through fees charged to the public, or where a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise fund activities operated by the state include the following:

Liquor Fund

The Liquor Fund is used to account for the administration and operation of state liquor stores and warehouses, and the distribution of net proceeds.

Workers' Compensation Fund

The Workers' Compensation Fund is used to account for the workers' compensation program which provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

Convention and Trade Fund

The Convention and Trade Fund is used to account for the acquisition, design, construction, promotion and operation of the State Convention and Trade Center.

Lottery Fund

The Lottery Fund is used to account for lottery ticket revenues, administrative and operating expenses of the Lottery Commission, and the distribution of revenue.

Student Services Fund

The Student Services Fund is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

All Other Enterprise Funds

Fees charged by the various activities including the Department of Corrections' Vocational and Educational programs, the Guaranteed Tuition Program, and operation of certain computer systems.

The table below reflects in a summarized format the significant enterprise fund activities that have occurred during the fiscal year ended June 30, 2001. Interfund transactions have not been eliminated for purposes of this analysis (expressed in thousands):

	Workers'		Convention		Student	All Other	Total
	Liquor	Comp.	and Trade	Lottery	Services	Enterprise	Enterprise
	Fund	Fund	Fund	Fund	Fund	Funds	Funds
Operating Revenues	\$ 94,433	\$ 1,657,168	\$ 9,626	\$ 483,906	\$ 818,924	\$ 26,316	\$ 3,090,373
Depreciation and Amortization	177	1,864	4,148	235	31,495	2,473	40,392
Operating Income (Loss)	25,675	(422,674)	(8,507)	130,984	(18,419)	(17,328)	(310,269)
Operating Interfund Transfers (Net)	(54,073)	(11,096)	(13)	(127,337)	13,015	6,110	(173,394)
Tax Revenue	43,519	-	42,271	-	-	445	86,235
Net Income (Loss)	(5,067)	(362,864)	23,988	51,153	(715)	(2,295)	(295,800)
Current Capital Contribution (Return)	-	-	-	-	-	(1,147,658)	(1,147,658)
Net Working Capital	10,691	(1,525,224)	20,144	18,392	266,874	69,991	(1,139,132)
Change in Fixed Assets	10,152	(2,297)	40,325	(113)	78,753	(851,056)	(724,236)
Total Assets	74,915	9,552,333	379,488	624,631	1,269,221	239,090	12,139,678
Bonds and Other Long-Term Liabilities							
Payable from Operating Revenues	21,711	12,983,876	311,464	476,317	304,082	106,114	14,203,564
Total Equity	13,208	(5,426,175)	54,366	55,386	776,465	68,859	(4,457,891)

Note 19 - Condensed Financial Information - Component Units

The state has five proprietary type component units. Four of these components are financing authorities. They issue nonrecourse revenue bonds to provide low cost capital financing for programs deemed to be in the public interest without using public funds or lending the credit of the state. These component units are as follows:

Housing Finance

The Washington State Housing Finance Commission makes funds available to help provide housing throughout the state and to finance or refinance nursing homes and capital facilities owned and operated by nonprofit corporations.

Higher Education Facilities

The Washington Higher Education Facilities Authority provides funding to qualified, nonprofit higher education institutions in the state.

Health Care Facilities

The Washington Health Care Facilities Authority makes funds available to qualified, nonprofit health care facilities in the state.

Economic Development Finance

The Washington Economic Development Finance Authority makes funds available to qualified small and medium-sized businesses in the state.

The fifth component unit is:

The Public Stadium

The Washington State Public Stadium Authority, was formed to acquire, construct, own and operate a stadium, exhibition center and parking garage.

The tables below present the latest financial information available for the component units (expressed in thousands):

		Higher		Economic			
Balance Sheets	Housing Education		Health Care Development		Public		
	Finance	Facilities	Facilities	Finance	Stadium	Totals	
Assets:							
Current assets	\$ 34,295	\$ 677	\$ 1,511	\$ 153	\$ 75,148	\$ 111,784	
Other nonfixed assets	13,218	1	2,136	-	13,604	28,959	
Fixed assets		-	-	-	330,798	330,798	
Total Assets	\$ 47,513	\$ 678	\$ 3,647	\$ 153	\$ 419,550	\$ 471,541	
Liabilities:							
Current liabilities	\$ 1,451	\$ 104	\$ 112	\$ 9	\$ 21,761	\$ 23,437	
Long-term liabilities	4,332	-	38	-	28,940	33,310	
Total Liabilities	5,783	104	150	9	50,701	56,747	
Equity	41,730	574	3,497	144	368,849	414,794	
Total Liabilities and Equity	\$ 47,513	\$ 678	\$ 3,647	\$ 153	\$ 419,550	\$ 471,541	

Statements of Revenues,		Higher		Economic		
Expenses, and Changes in Equity	Housing	Education	Health Care	Development	Public	
	Finance	Facilities	Facilities	Finance	Stadium	Totals
Operating revenues	\$ 7,606	\$ 118	\$ 518	\$ 290	\$ 439	\$ 8,971
Operating expenses	6,519	181	605	145	3,914	11,364
Operating income	1,087	(63)	(87)	145	(3,475)	(2,393)
Nonoperating revenue (expenses)						
Earnings on investments	3,108	44	243	-	2,712	6,107
Sales tax	-	-	-	-	1,500	1,500
Interest	(344)	-	-	-	-	(344)
Net income	3,851	(19)	156	145	737	4,870
Equity, July 1	37,916	593	3,341	(1)	199,111	240,960
Contributions of capital	(37)	-	-	-	169,001	168,964
Equity, June 30	\$ 41,730	\$ 574	\$ 3,497	\$ 144	\$ 368,849	\$ 414,794

Note 20 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled \$1.5 billion at June 30, 2001.

B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings which normally occur in governmental operations. At any given point in time, there may be numerous lawsuits involving state agencies which could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, and the University of Washington. There are risk management funds reserved by the state for these claims and insurance is available to pay a portion of damages for certain types of claims. There has been a trend over the past two years of higher jury verdicts on certain types of damage claims. collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

Social Service Program Administration Litigation

During the reporting period, there were a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen*

v. Western State Hospital, for instance, the Washington Protection and Advocacy System has filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital alleging that the state programs are inadequate and the state has failed to provide community base services when appropriate. The trial has been stayed pending further review of whether program changes and funding requests to the Legislature by the Department of Social and Health Services will resolve claims. Arc, et al. v. Quasim is a class action on behalf of the persons with developmental disabilities seeking access to Medicaid funded services. The trial has been stayed based on a settlement agreement contingent on additional future funding by the Legislature. If these claims are not resolved through settlement and the cases go to trial, it is difficult to estimate with any certainty the potential amount of damages which might be recovered. These lawsuits, however, are not expected to have a material impact on state revenues or expenditures. If relief is granted, there would be a need to reprioritize agency program expenditures in the budget process to provide program support for individuals in these classes.

Social Security Benefits

There is a class action lawsuit challenging the Department of Social and Health Services' authority to use Social Security benefits received on behalf of a foster child when it acts as a representative payee and applies the benefits toward the costs of the child's foster care. The Department currently receives \$600,000 a month in Social Security monies that it uses for this purpose. This is consistent with the practice in other states. The lawsuit sought a declaratory ruling that the state may not obtain and use such funds for foster care services, along with a refund of funds used in the past. The State Supreme Court has determined that the Department may not use the Social Security funds in this manner. A motion for reconsideration has been filed and it is likely the United. States. Supreme Court will be asked to review this decision. If relief is affirmed, there would be a reduction of revenue to the state in the future. resulting in a need to seek additional funding or reprioritize use of existing funding. There also would be a follow-up proceeding to determine to what extent there should be refunds. It is difficult to estimate with any certainty the potential amount of refunds which might be recovered.

Business and Occupation Tax Structure Litigation

Over the past ten years, we have reported on the recurring litigation challenging the state's business and occupation tax structure (referred to as the interstate manufacturers litigation). This litigation represents the claims of approximately 115 corporate taxpayers for business and occupation tax refunds from periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied certiorari review of an April 1999 decision by the Washington State Supreme Court. W.R. Grace & Co. -Conn. And Chrysler Motors Corporation v. State of Washington, Department of Rev., and Buffelen Woodworking Co., et al. v. State of Washington, Department of Rev. The State Supreme Court denied claims for a refund except to the extent the taxpavers could demonstrate entitlement to credits against their Washington State tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. In spite of the case history, the cases were remanded to Thurston County Superior Court, and the taxpayers have waived refunds measured by tax credits. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Sizeable refund awards, however, are considered remote.

Medicaid Reimbursement Litigation

In the past there has been periodic litigation involving Medicaid reimbursement issues. Over the last three years, there has been an increase in the number and types of claims. Currently, there are three lawsuits which raise issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. In the previous cases, these types of claims have been limited and focused by courts through motion practice and eventually resolved through settlement agreements and legislative appropriation. It is difficult to predict whether the current cases might result in any significant amount of reimbursement under the theories presented. If substantial costs are recovered in any of those proceedings, there would be a need to reprioritize agency program expenditures in the budget process to cover any additional costs.

C. Federal Assistance

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. Arbitrage Rebate

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Note 21 - Subsequent Events

A. Bond Issues

In August 2001, the state issued \$306.6 million in Various Purpose General Obligation Bonds, Series 2002A, and \$31.5 million in State Housing Trust Fund Bonds, Series 2002T.

B. Certificates of Participation

In August 2001, the state issued \$2.1 million in Certificates of Participation for various statewide equipment lease purchases, Series 2001D.

In October 2001, the state issued \$6.1 million in Certificates of Participation for various statewide equipment lease purchases, Series 2001E.

In October 2001, the state issued \$4.1 million in real estate Certificates of Participation for the Department of Veteran Affairs.

In November 2001, the state issued \$1 million in Certificates of Participation for various local real estate purchases, Series 2001B.

C. Voter Initiatives

On November 6, 2001, voters approved Initiative 747 that limits any state and local regular property tax increases to 1% per year, unless voters approve a greater increase. The limitation on property taxes is estimated to reduce General Fund-State revenues by \$25.1 million in the 2001-2003 Biennium.

The voters also approved Initiative 773 that increases the tax on tobacco and cigarettes. The tax increase is deposited to the Health Services Account. The General Fund-State is expected to lose cigarette tax revenue because of reduced consumption. The reduced consumption is estimated to decrease General Fund revenues by \$9.1 million in the 2001-2003 Biennium.

Initiative 775 was also approved by the voters. I-775 establishes an authority to regulate and improve publicly funded in-home care services for elderly and disabled adults. This new authority is estimated to result in additional expenditures from General Fund-State totaling \$1.8 million for the 2001-2003 Biennium.